
LESSON 2

ECONOMICS AND POLICY

Introduction

Purpose

This lesson will help you understand

wThe relationship between domestic and international economic factors and national policymaking

wToday's global environment

wThe importance of economic issues, such as trade and monetary policy, to national security policy

Why Study Economics and Policy?

As a Marine officer, you need to be familiar with

wThe link between military power, national resources, and world economics. Economics is, perhaps, the least understood component of national power.

wThe constraints on national and international economic power, and the basis for spending on entitlement programs, defense, foreign aid, etc.

wThe concepts of regional integration such as the North American Free Trade Agreement (NAFTA) and the role organizations, such as the World Trade Organization, play in global integration. This understanding will help you gain a better appreciation for international economic integration and the implications of growth versus protectionism.

Relationship to Other Instruction

This lesson complements the other lessons in this course and sets the stage for historical case studies.

Study Time

This lesson, including the issues for consideration, will require about 3 hours of study.

Educational Objectives

Decisions on Expenditures	Explain how U.S. government decisions on expenditures, taxes, and transfer payments affect the national economy.
----------------------------------	--

National Influences	Assess the ways fiscal policy might influence national decisionmaking, national security strategy, and national military strategy formulations. [JPME area 4a]
----------------------------	---

Importance to our Nation's Economy	Explain the importance of trade and global monetary policies to our nation's economy.
---	---

JPME Areas/ Objectives/Hours (accounting data)	4/a/1.0
---	---------

Lesson Overview

Introduction

There exists an important relationship between domestic and international economic factors and national policy making. The basic assumption is that in today's global environment, there are important trade and monetary issues that are an integral part of national security policy.

An understanding of these issues is fundamental to the future military commander. In fact, the linkage between military power, national resources, and global economics is the least understood component of national power. In real terms, there are a number of factors that exert considerable influence on the economic component of national power.

Federal Budget

The Federal budget is an extremely important factor in determining the amount of national resources that will be committed to national security and strategic considerations.

Domestic and Military Spending

Both domestic and military spending are considered discretionary spending and are capped by law at a certain declining level. Thus, if spending is increased in one category of discretionary spending (for example, education), it must be decreased elsewhere (for example, military spending) to stay within the total permitted.

Over the last five years, defense spending has decreased by approximately 175 billion dollars, in large part because of the end of the Cold War.

Historically the United States has opted to expand domestic spending during the absence of an apparent global threat to its national security. Downsizing and base closures are only two manifestations of this issue in the post-Cold War period.

Federal Deficit

The competition for an ever-decreasing portion of the federal budget is compounded by the enormous federal deficit, whose debt service is nearly one fifth of the entire federal budget.

Continued on next page

Lesson Overview, Continued

Globalization	<p>Globalization is economic integration among nations. It is associated with free trade and the end of tariffs, quotas, and trade barriers.</p> <p>Proponents of globalization argue that this cooperation is conducive to peace, prosperity, and stability.</p> <p>Opponents of globalization argue that globalization masks the unjust economic exploitation of developing countries since industrial states set out to employ cheaper labor to produce profitable commodities.</p>
Economic Order	<p>Since the 1960s, the U.S. economy has become increasingly dependent on the international economic order. Trade agreements, such as NAFTA, are essential. The military budget is affected because you cannot have a strong defense on a weak economy. Trade agreements are important to long term security.</p> <p>For the United States, trade issues are of concern to a large segment of its population because of the nature of the U.S. economic system. This is also related to the role the U.S. has as a hegemonic global power.</p>

Required Reading

Strategic Level of War Readings

- Owens, Mackubin T. "Strategy and Resources: Trends in the U.S. Defense Budget." *Brassey's Mershon American Defense Annual 1995-1996*, pp. 155-181. This reading is located immediately following this lesson, pp. B-3 to B-29. This article examines the relationship between emerging U.S. strategy and increasingly severe budgetary constraints. It points out the impact both will have on the course defense policy follows.
 - Institute for National Security Studies. "Economics." *Strategic Assessment 1996*, pp. 176-193. This reading is located immediately following this lesson, pp. B-31 to B-43. The end of the Cold War and a relative decline in security issues placed American economic performance into the forefront of public thought. Some interest has risen that would use monetary instruments to promote U.S. economic goals and security interests.
 - Stokes, Bruce. "Globalization: workplace winners and losers." *Great Decisions 1997*. New York: Foreign Policy Association, pp. 77-86. This reading is located immediately following this lesson, pp. B-45 to B-55. Be alert as to how globalization of the U.S. economy has affected jobs and wages here and abroad.
-

Issues For Consideration

**Domestic and
Military
Spending**

What is the link between domestic and military spending?

**Cuts in Defense
Spending**

What possible effects occur with government cuts in defense spending as a result of increases in nondefense spending? What may be the consequences?

Budget Deficits

How does a budget deficit affect the nation's ability to address economic problems with realistic policy options?

Globalization

What does globalization mean?

What is the significance of the North American Free Trade Agreement (NAFTA) to the U.S. economy?
